

Message Text

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13/50

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 SSO-00 NSCE-00 INRE-00 SS-20

NSC-07 SWF-02 AID-20 CEA-02 CIAE-00 COME-00 EB-11

FRB-03 INR-11 NSAE-00 RSC-01 CIEP-03 SP-03 STR-08

TRSE-00 LAB-06 SIL-01 SAM-01 OMB-01 FEA-02 PA-04

PRS-01 USIE-00 DRC-01 AF-10 ARA-16 EA-11 NEA-14 /199 W

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O R 171328Z SEP 74

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 7475 IMMEDIATE

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

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C O R R E C T E D C O P Y (REFERENCE & PARA. 9., LINES 12 &13)

E.O. 11652: N/A

TAGS: EFIN, PFOR, EEC

SUBJECT: HIGHLIGHTS OF EC FINANCE COUNCIL MEETING SEPTEMBER 16

REFERENCE: EC BRUSSELS 7068

1. SUMMARY. THE EC FINANCE MINISTERS, AT THEIR COUNCIL
MEETING ON SEPTEMBER 16, WERE PRESENTED WITH A FRENCH PROPOSAL
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FOR COMMUNITY BORROWING AND OTHER MEASURES WHICH WOULD, THE

FRENCH CLAIMED. "RELAUNCH THE MONETARY UNION OF EUROPE."
THE PROPOSAL WAS DISCUSSED IN A RESTRICTED SESSION AND
REFERRED TO THE APPROPRIATE COMMITTEES FOR STUDY. THE
COUNCIL DID NOT AGREE IN PRINCIPLE ON PROPOSED EC BORROWING
FROM OIL PRODUCING COUNTRIES BUT IT APPEARS CLOSER TO A
FAVORABLE DECISION. END SUMMARY

2. THE EC COUNCIL OF MINISTERS (FINANCE) MET IN
BRUSSELS ON SEPTEMBER 16. MOST OF THE MEETING, WHICH
TOOK PLACE ENTIRELY IN RESTRICTED FORMAT, WAS TAKEN UP
BY DISCUSSION OF A FOUR-POINT PROPOSAL BY THE FRENCH
FINANCE MINISTER (AND CURRENT COUNCIL PRESIDENT)
JEAN-PIERRE FOURCADE. THE PROPOSAL SEEKS, QUOTING FROM
FOURCADE'S PRESENTATION TO THE COUNCIL, "TO STRENGTHEN
AND ADAPT INTRA-COMMUNITY FINANCIAL MECHANISMS IN ORDER
TO GIVE EUROPE ITS RIGHTFUL ROLE IN REESTABLISHING ORDER
IN THE WORLD ECONOMY AND IN THE INTERNATIONAL MONETARY
SYSTEM." THE FOLLOWING ARE THE HIGHLIGHTS OF THE
FRENCH PROPOSAL; THE FULL TEXT WILL BE FORWARDED TO
EUR/RPE AND EMBASSY PARIS.

3. COMMUNITY LOAN: THE FRENCH PROPOSE THE PRIVATE
PLACEMENT OF A COMMUNITY-ISSUE (SOMEWHAT SIMILAR TO
THOSE DESCRIBED IN REFTEL) WITH THE TREASURIES OF OIL-
PRODUCING STATES IN THE AMOUNT (INITIALLY) OF TWO
BILLION UNITS OF ACCOUNT (UA) WITH A FIVE TO TEN YEAR
TERM. THIS LOAN IS TO BE BACKED BY THE EC'S OWN
RESOURCES ALTHOUGH AN INTRA-COMMUNITY PROPORTIONAL
GUARANTEE MECHANISM WILL BE WORKED OUT. (OUR SOURCES
INDICATE, HOWEVER, THAT THIS IS TO BE A FAIL-SAFE
MECHANISM RATHER THAN A PUBLIC GUARANTEE). THE PROCEEDS
OF THE ISSUE WILL GO TO THOSE MEMBER STATES MOST
AFFECTED BY THE ENERGY CRISIS--EACH WILL BE RESPONSIBLE
FOR THE REPAYMENT OF INTEREST AND PRINCIPAL SOLELY FOR
ITS SHARE OF THE TWO BILLION UA TOTAL. THE COMMISSION
HAD SUBMITTED SEPARATELY ITS PROPOSAL REGARDING
COMMUNITY BORROWING FROM OIL EXPORTING COUNTRIES.
THE COUNCIL ASKED FOR FURTHER STUDY ON THIS PROPOSAL
BUT ITS PRESS STATEMENT INDICATED THERE WAS SOME MOVE-
MENT TOWARD AN EVENTUAL FAVORABLE DECISION. WE
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UNDERSTAND THAT IT WAS THE GERMAN FINANCE MINISTER, HANS
APEL, WHO WOULD NOT AGREE IN PRINCIPLE TO THE PROPOSED
BORROWING.

4. NEW UNIT OF ACCOUNT: THE FRENCH SUGGEST THAT THE
NEW UNIT OF ACCOUNT WOULD BE A WEIGHTED AVERAGE OF
COMMUNITY CURRENCIES RATHER THAN FIXED IN TERMS OF
THE PREDEVALUED DOLLAR. THE BASKET OF CURRENCIES FROM

WHICH THE UA IS MADE UP WOULD REFLECT THE PRESENT PROPORTION OF THE QUOTAS ALLOCATED FOR SHORT-TERM MONETARY SUPPORT. (THE FRENCH FRANC, THE MARK AND THE BRITISH POUND EACH WOULD MAKE UP 22.02 PERCENT OF THE BASKET; WITH THE LIRA MAKING UP 14.68 PERCENT; THE BELGIAN/LUXEMBOURG FRANC 7.34 PERCENT; THE GUILDER 7.34 PERCENT; THE DANISH KRONER 3.30 PERCENT; IRISH POUND 1.28 PERCENT).

5. EXCHANGE RATES: THE FRENCH ALSO PROPOSED A REVISION OF THE EXCHANGE RATE SYSTEM SO THAT EACH COMMUNITY CURRENCY WOULD HAVE INDIVIDUAL MARGINS FOR ITS FLUCTUATION AGAINST EACH OF THE OTHER EC CURRENCIES. THIS FLEXIBLE SYSTEM WOULD REPRESENT A DEPARTURE FROM THE FIXED MARGINS OF THE MINI-SNAKE. INDIVIDUAL CURRENCY MARGINS WOULD BE KEPT SECRET TO PREVENT SPECULATION. PRESUMABLY THIS PROPOSAL, COUPLED WITH READJUSTMENTS IN THE MAKEUP OF THE UA, WOULD RESULT IN A DOLLAR VALUE FOR THE UA. IN HIS STATEMENT FOLLOWING THE COUNCIL, FOURCADE SAID THAT BY THESE CHANGES, THE FRENCH HOPED TO TRANSFORM THE UA INTO MORE THAN AN ACCOUNTING DEVICE AND TO USE IT TO "RELAUNCH THE MONETARY UNION OF EUROPE."

6. GREATER COORDINATION FOR EURO-MARKETS: FINALLY, THE FRENCH PROPOSED GREATER HARMONIZATION OF MONETARY REGULATIONS CONCERNING FOREIGN COUNTRIES, COMMUNITY REGULATION FOR INCREASING CONTROL OVER EURO-CURRENCY BANKING OPERATIONS, AND CONCERTED EFFORTS BY CENTRAL BANKS WITH REGARD TO DIFFICULTIES IMPEDING THE MARKET OPERATION.

7. ALL THESE PROPOSALS HAVE BEEN REFERRED TO THE MONETARY AND CENTRAL BANK COMMITTEES AND THEIR ADOPTION, LIMITED OFFICIAL USE

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WITH THE POSSIBLE EXCEPTION OF THE EC BORROWING FROM ARAB COUNTRIES (PARA 3) IS NOT LIKELY TO BE ACCEPTED BY COUNCIL IN THE FORESEEABLE FUTURE.

8. MISCELLANEOUS: IN ADDITION TO CONSIDERATION OF THE FRENCH PROPOSAL, THE COUNCIL TOOK FORMAL NOTE OF THE EXTENSION OF THE SHORT-TERM SUPPORT FOR ITALY AND DIRECTED THAT A REPORT BE PREPARED ON SWITCHING TO A MEDIUM-TERM INSTRUMENT FOR ITS NEXT MEETING ON OCTOBER 21 IN LUXEMBOURG.

9. COMMENT. ACCORDING TO COMMISSION AND OTHER PERM REP SOURCES, BOTH THE NATURE OF THE FRENCH PROPOSALS AND THE STYLE IN WHICH THEY WERE PRESENTED--FROM THE CHAIR AND WITHOUT HAVING GIVEN THE COMMISSION A CHANCE

FOR PRIOR COMMENT--REVIVED MEMORIES OF THE DEGAULLE ERA. IN HIS PRESENTATION FOLLOWING THE MEETING, FOURCADE MADE NO MENTION OF ANY DISCUSSION BY THE MINISTERS BUT ONLY DESCRIBED THE FRENCH VIEW, OFTEN IN GRANDIOSE TERMS. (OTHER FRENCH MINISTERS, WHEN ACTING AS PRESIDENT AND NOTABLY SAUVANGNARGUES, HAVE GONE OUT OF THEIR WAY TO APPEAR STATESMANLIKE AND NOT UNREASONABLY PARTISAN). FOR EXAMPLE, ONLY UNDER HEAVY QUESTIONING DID FOURCADE ADMIT THAT THE PROPOSED BORROWING COULD MOVE FORWARD WITHOUT THE ADOPTION OF THE REVISED UA MECHANISM. HIS PRESENTATION WAS SO ONE-SIDED THAT A BRITISH DIPLOMAT WHO HAD BEEN PRESENT IN THE MEETINGS DESCRIBED IT AS A "SNOW-JOB." GREENWALD

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC COOPERATION, FINANCE, ECONOMIC STABILITY, BANK LOANS, MINISTERIAL MEETINGS, ECONOMIC PROGRAMS, ANTINFLATIONARY PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 17 SEP 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974ECBRU07122
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740261-0259
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740940/aaaabhki.tel
Line Count: 182
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: EC BRUSSELS 7068
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 04 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 APR 2002 by collinp0>; APPROVED <03 JUL 2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: HIGHLIGHTS OF EC FINANCE COUNCIL MEETING SEPTEMBER 16
TAGS: EFIN, PFOR, EEC
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005